

Special Report
Review of Audits of Outside Agencies

February 2003

City Auditor's Office
City of Kansas City, Missouri

February 5, 2003

Honorable Mayor and Members of the City Council:

This review of audits of outside agencies was initiated by the City Auditor pursuant to Article II, Section 13 of the city charter. This report, which is required by Section 2-113 of the Code of Ordinances, focuses on reviewing the financial audit reports, internal control reports, and compliance reports of those agencies that receive at least \$100,000 in city funding annually. This is our fifth report on audits of outside agencies.

The amount of funding given to these agencies is significant. In fiscal year 2002, 49 outside agencies received \$130 million in funding or pass-through money to operate or administer programs or services that further the public good. This represents approximately 19 percent of the city's general municipal program expenditures during the fiscal year. It is always important that each agency's financial management is sound, but particularly so in difficult budget times.

Auditors for 31 percent of the agencies we reviewed had concerns they were required to report. This percentage remains unchanged from last year. Five agencies did not submit their required audit.

We appreciate the courtesy and cooperation extended to us during this project by the agencies, their accounting firms, and the city monitoring departments. We sent a draft report to the City Manager and the director of each monitoring department. The team for this project was Joyce Patton and Nancy Hunt.

Mark Funkhouser
City Auditor

cc: Robert L. Collins, City Manager

Review of Audits of Outside Agencies

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Introduction

Objectives

This review of audits of outside agencies was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the office of the City Auditor and outlines the City Auditor's primary duties. City code requires the City Auditor to review audits of outside agencies and report the negative opinions, reportable conditions, and material weaknesses to the Mayor, City Council, and City Manager on an annual basis.

The purpose of this report is to provide the Mayor and City Council with information on the performance of agencies receiving significant city funding and assist them when making decisions about future funding for these agencies.

Scope and Methodology

Our review was limited to those agencies¹ receiving \$100,000 or more from the city in fiscal year 2002. This review is based on the audit reports we received between December 18, 2001 and January 24, 2003. Audit reports are based on the agency's fiscal year, which can vary from the city's fiscal year.

Our review was performed in accordance with generally accepted government auditing standards. Our methods included:

- Identifying outside agencies that received at least \$100,000 in fiscal year 2002 from the city.
- Obtaining and reviewing audits of financial statements, reports on internal controls and compliance, and management letters.

¹ An outside agency is any entity with which the city contracts and/or provides funds for the operation or administration of a program or service which furthers the public good. Contracts with the Commissioner of Purchases and Supplies, construction contracts, consultant or engineering contracts, and contracts with governmental entities are excluded.

- Identifying and summarizing opinions on financial statements, reportable conditions, material weaknesses and material noncompliance identified by the agencies' external auditors.
- Interviewing monitoring department and outside agency management regarding qualified, adverse, or disclaimer of opinions, material weaknesses, and instances of noncompliance.

No information was omitted from this report because it was deemed privileged or confidential.

Background

Legislative Authority

Code of Ordinances. Section 2-113 of the Code of Ordinances requires any agency receiving \$100,000 or more in city funding within a year to engage a certified public accountant (CPA) to conduct a financial audit and requires the CPA to submit the audit, management letter, and response to the management letter to the City Auditor. In addition, the agency is required to engage a professional qualified to analyze the agency's internal control structure and the professional is to furnish the City Auditor with a copy of the analysis. The annual audit is to be submitted to the monitoring department within six months of the agency's fiscal year-end.

OMB Circular A-133. Agencies receiving at least \$300,000 annually in federal funding have additional reporting requirements. The federal Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires these agencies to have reports on internal controls over financial reporting and on compliance with laws, regulations, and contract or grant agreement provisions.

Funding

During fiscal year 2002, the city provided 49 non-municipal agencies with over \$130 million in total funding, representing approximately 19 percent of the city's general municipal program expenditures during that year. Nine city departments contract with these outside agencies and are responsible for monitoring the agencies' performance. The size of the city's general municipal program expenditures devoted to fund non-municipal agencies makes it important for the Mayor and City Council

to be informed of any concerns expressed by an agency's external auditor that may jeopardize the agency's ability to safeguard and use properly the funding it receives from the city. (See Exhibit 1.)

Exhibit 1. Funding Provided to Selected² Outside Agencies, Fiscal Years 2000 – 2002

Agency	2000	2001	2002
18 th and Vine Authority	\$ 981,626	\$ 979,808	\$ 995,294
Black Economic Union of Greater Kansas City	396,830	322,631	661,179
Bridging the Gap, Inc	389,039	561,654	633,368
Cabot Westside Clinic	216,107	219,101	269,779
Children's Mercy Hospital	4,109,737	4,010,290	4,048,298
Community Assistance Council, Inc.	80,047	102,348	115,537
Community Development Corporation of Kansas City	30,777	100,000	308,441
Convention and Visitors Bureau of Greater Kansas City	4,428,874	5,885,712	5,565,975
East Meyer Community Association	143,980	203,529	319,826
Economic Development Corporation of Kansas City, Mo.	1,626,601	1,476,681	1,533,495
Friends of the Zoo, Inc.	N/A	N/A	895,500
Full Employment Council, Inc.	183,483	189,152	122,347
Good Samaritan Project, Inc.	787,287	866,754	898,228
Greater Kansas City Housing Information Center	114,033	143,474	153,014
Guadalupe Center, Inc.	317,379	447,143	444,326
Heartland Aids Resource Council, Inc.	197,722	206,734	179,485
Hispanic Economic Development Corporation	167,695	199,355	186,406
Hope House, Inc.	38,850	121,475	138,709
Housing and Economic Development Financial Corp.	7,190,410	11,037,037	17,892,861
Kansas City Area Transportation Authority	21,429,618	29,851,403	32,298,511
Kansas City Downtown Minority Development Corp.	145,000	221,126	0
Kansas City Free Health Clinic	835,549	765,707	954,906
Kansas City Neighborhood Alliance	127,846	143,068	139,231
KCMC Child Development Corporation	172,422	294,935	226,256
Land Clearance for Redevelopment Authority	219,865	345,523	794,265
Legal Aid of Western Missouri	691,329	695,685	772,486
Metropolitan Ambulance Services Trust	2,132,135	1,907,626	2,263,571
Metropolitan Lutheran Ministry	205,266	302,881	301,274
Midtown Community Development Corporation	356,905	283,843	464,383
Minority Contractors Association of Greater Kansas City, Inc.	97,934	212,748	119,445
Neighborhood Housing Services of Kansas City, Inc.	101,812	135,392	127,229
Newhouse, Inc.	92,550	195,645	165,579
Northland Neighborhoods, Inc.	151,908	210,582	244,147
Old Northeast, Inc.	266,382	272,830	315,011
Operation Breakthrough, Inc	207,932	190,093	267,214
Palestine Senior Citizen Activity Center	51,113	50,000	105,495
Planned Industrial Expansion Authority of Kansas City, Mo.	460,168	1,028,793	370,601
Port Authority of Kansas City, Missouri	223,333	30,000	1,219,698
ReStart, Inc.	124,177	91,151	65,784

² While funding levels are provided for three years, this review is limited to the financial reports of agencies receiving \$100,000 or more in a year that their financial audit was due.

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Agency	2000	2001	2002
Rose Brooks Center, Inc.	638,170	63,643	657,373
Samuel U. Rodgers Community Health Center, Inc.	666,619	687,690	634,303
SAVE, Inc. and Affiliates	987,963	1,216,429	1,078,789
Swope Parkway Health Center	737,879	921,970	883,554
Synergy Services, Inc.	47,215	112,160	114,957
Tax Increment Financing Commission of Kansas City, Mo.	12,109,149	17,294,389	19,499,861
Truman Medical Center, Inc.	27,691,464	27,987,371	28,825,649
Twelfth Street Heritage Development Corporation	141,737	169,307	245,022
Union Station Kansas City, Inc. ³	961,326	1,106,012	1,344,077
United Inner City Services, Inc.	145,317	120,130	170,885
United Services Community Action Agency, Inc.	161,539	168,940	137,735
Westside Housing Organization, Inc.	45,188	269,129	147,273
Total	\$93,827,287	\$114,419,079	\$130,316,632

Source: City's Financial Management System (AFN).

³ Kansas City Museum Association and the Union Station Assistance Corporation merged into Union Station Kansas City, Inc. on December 29, 2000. The 2000 figure indicates the funding given to the Kansas City Museum Association.

Summary

Non-municipal agencies received substantial taxpayer support in fiscal year 2002. Auditors for a majority of the non-municipal agencies receiving \$100,000 or more in fiscal 2002 funding did not report any accounting or control problems that are required to be reported under generally accepted accounting principles (GAAP) and generally accepted government auditing standards (GAGAS). External auditors expressed concerns with about 30 percent of the agencies that submitted financial reports during the last 13 month period.

This report summarizes the items of concern identified by the external auditors; oversight activities undertaken by the city department primarily responsible for monitoring the agency; and corrective actions agency management reports taking to address qualified, adverse, and disclaimer of opinions, material weakness, and noncompliance findings.

Reports Reviewed

Forty-nine non-municipal agencies each received \$100,000 or more in city funding during fiscal year 2002. Forty-five of these agencies submitted audit reports between December 18, 2001 and January 24, 2003. Auditors expressed concerns about 14 agencies. (See Exhibit 2.)

Exhibit 2. Type of Findings

Finding	Number of Agencies ⁴				
	1999	2000	2001	2002	2003
Qualified Opinion	3	1	0	1	2
Disclaimer of Opinion	0	0	0	1	1
Reportable Condition	13	8	11	13	11
Material Weakness	4	2	2	4	4
Noncompliance	5	4	3	4	5
Agencies Reviewed	41	43	44	49	45
Agencies with Findings	15	9	11	15	14
Percent of Agencies with Findings	37%	21%	25%	31%	31%

Sources: Annual agency audits.

⁴ An agency can have multiple findings in any review period.

Exhibit 3 is a summary, by monitoring department, of the reports we reviewed and the findings indicated by the agencies' external auditors. Fourteen agencies submitted two years of audit reports during the past year. Summaries for both audits are included in Exhibit 3.

Exhibit 3. Summary of Reports Reviewed and Findings

Agency Name	Fiscal Year End	Type of Opinion	Reportable Condition ⁵	Non-compliance ⁶
City Planning and Development				
18th and Vine Authority	4/30/2002	Unqualified ⁷	No	No
Planned Industrial Expansion Authority of Kansas City, Missouri	4/30/2002	Qualified	No	No
Convention and Entertainment Centers				
Convention and Visitors Bureau of Greater Kansas City	4/30/2002	Unqualified	N/P	N/P
Finance				
Union Station Kansas City, Inc.	12/31/2001	Unqualified	N/P	N/P
Health				
Cabot Westside Clinic	12/31/2001	Unqualified	No	N/P
Children's Mercy Hospital	6/30/2002	Unqualified	N/P ⁸	N/P
Children's Mercy Hospital	6/30/2001	Unqualified	No	No
Good Samaritan Project, Inc.	12/31/2001	Unqualified	Yes	No
Heartland AIDS Resource Council, Inc.	12/31/2001	Unqualified	No	No
Kansas City Free Health Clinic	3/31/2002	Unqualified	No	No
Metropolitan Ambulance Services Trust	4/30/2002	Unqualified	N/P	N/P
Samuel U. Rodgers Community Health Center, Inc.	9/30/2001	Unqualified	Yes	Yes
SAVE, Inc. and Affiliates	6/30/2002	Unqualified	Yes	Yes
SAVE, Inc. and Affiliates	6/30/2001	Disclaimer	Yes ⁹	Yes
Swope Parkway Health Center	12/31/2001	Unqualified	No	No
Truman Medical Center, Inc.	4/30/2002	Unqualified	No	No
Truman Medical Center, Inc.	4/30/2001	Unqualified	Yes ⁹	No
Housing and Community Development				
Black Economic Union of Greater Kansas City	12/31/2001	Unqualified	Yes	No
Community Development Corporation of Kansas City	2/28/2002	Unqualified	No	No
East Meyer Community Association	5/31/2001	Unqualified	No	No
Greater Kansas City Housing Information Center	12/31/2001	Unqualified	Yes ⁹	No
Hispanic Economic Development Corp.	5/31/2002	Unqualified	No	No
Hispanic Economic Development Corp.	5/31/2001	Unqualified	No	No

⁵ N/P indicates an internal control report was not prepared.

⁶ N/P indicates a compliance report was not prepared.

⁷ Although the auditor issued an unqualified opinion, the auditor also reported that the Authority has potential liability from litigation. Had this liability been recognized there would be a significant deficiency in net assets. Such a deficiency in net assets raises substantial doubt about the Authority's ability to continue as a going concern.

⁸ Children's Mercy Hospital's June 30, 2002 internal control report is expected to be completed in March 2003.

⁹ This reportable condition is also a material weakness.

Agency Name	Fiscal Year End	Type of Opinion	Reportable Condition	Non-compliance
Housing and Community Development (Continued from previous page)				
Housing & Economic Development Financial Corp.	5/31/2002	Unqualified	No	No
Housing & Economic Development Financial Corp.	5/31/2001	Unqualified	No	No
Kansas City Neighborhood Alliance	12/31/2001	Unqualified	No	No
Midtown Community Development Corp.	12/31/2001	Unqualified	Yes	No
Minority Contractors Association of Greater Kansas City, Inc.	5/31/2002	Unqualified	No	No
Minority Contractors Association of Greater Kansas City, Inc.	5/31/2001	Unqualified	No	No
Neighborhood Housing Services of Kansas City, Inc.	9/30/2001	Unqualified	No	N/P
Northland Neighborhoods, Inc.	5/31/2002	Unqualified	No	No
Northland Neighborhoods, Inc.	5/31/2001	Unqualified	No	No
Old Northeast, Inc.	12/31/2001	Unqualified	No	N/P
Palestine Senior Citizen Activity Center	12/31/2001	Unqualified	No	No
Twelfth Street Heritage Development Corp.	5/31/2002	Unqualified	No	No
Twelfth Street Heritage Development Corp.	5/31/2001	Unqualified	No	No
Westside Housing Organization, Inc.	5/31/2002	Unqualified	No	No
Westside Housing Organization, Inc.	5/31/2001	Qualified	No	No
Neighborhood and Community Services				
Community Assistance Council, Inc.	12/31/2001	Unqualified	No	N/P
Full Employment Council, Inc.	6/30/2002	Unqualified	No	No
Full Employment Council, Inc.	6/30/2001	Unqualified	No	Yes
Guadalupe Center, Inc.	12/31/2001	Unqualified	Yes ¹⁰	Yes
Hope House, Inc.	9/30/2001	Unqualified	No	No
KCMC Child Development Corporation	6/30/2002	Unqualified	Yes	Yes
KCMC Child Development Corporation	6/30/2001	Unqualified	Yes	Yes
Legal Aid of Western Missouri	12/31/2001	Unqualified	No	No
Metropolitan Lutheran Ministry	1/31/2002	Unqualified	Yes	No
Newhouse, Inc.	12/31/2001	Unqualified	No	No
Operation Breakthrough, Inc.	10/31/2001	Unqualified	No	No
Rose Brooks Center, Inc.	6/30/2002	Unqualified	No	No
Rose Brooks Center, Inc.	6/30/2001	Unqualified	No	No
Synergy Services, Inc.	12/31/2001	Unqualified	No	No
Synergy Services, Inc.	12/31/2000	Unqualified	No	No
United Inner City Services, Inc.	12/31/2001	Unqualified	Yes	No
United Inner City Services, Inc.	12/31/2000	Unqualified	No	No
United Services Community Action Agency	9/30/2001	Unqualified	No	No
Environmental Management				
Bridging the Gap, Inc.	4/30/2002	Unqualified	N/P	N/P
Parks and Recreation				
Friends of the Zoo, Inc.	12/31/2001	Unqualified	N/P	N/P
Public Works				
Kansas City Area Transportation Authority	12/31/2001	Unqualified	No	No

Sources: Annual agency audits performed by the agencies' external auditors for the years ended as indicated above.

¹⁰ This reportable condition is also a material weakness.

Reports Not Submitted

Five agencies that collectively received over \$23 million in city funding during fiscal year 2002, did not submit financial audits within the timeframe established by the city. City code requires audits be submitted to the city within six months of the agency's fiscal year end. Although their fiscal years ended more than six months earlier, the agencies had not submitted copies of their final financial audit by January 24, 2003. As a consequence, recent information on the accounting and financial control structures of these agencies is not available to the Mayor and City Council or monitoring departments. (See Exhibit 4.)

Exhibit 4. Funding of Agencies with Late Reports

Agencies	Agency Fiscal Year End	Funding FY 2002
East Meyer Community Association	5/31/2002	\$ 319,826
Economic Development Corporation of Kansas City, Missouri	4/30/2002	1,533,495
Land Clearance for Redevelopment Authority	4/30/2002	794,265
Port Authority of Kansas City, Missouri	4/30/2002	1,219,698
Tax Increment Financing Commission of Kansas City, Missouri	4/30/2002	19,499,861
Total		\$23,367,145

Source: City's Financial Management System (AFN).

The external auditor for the Economic Development Corporation of Kansas City, Missouri, and its umbrella agencies,¹¹ has been working with city staff to address audit issues related to tax increment financing payables. The Housing and Community Development Department has terminated its contract with East Meyer Community Association.

Qualified Opinions

Auditors issue qualified opinions when they see departures from generally accepted accounting principles (GAAP) or have major limitations on the scope of an audit, such as might occur from missing documentation. Except for the effects of the matters to which the qualification relates, the financial statements fairly present, in all material respects the entity's financial position, results of operations, and cash flow in conformity with generally accepted accounting principles.

¹¹ Land Clearance for Redevelopment Authority, Port Authority of Kansas City, Missouri, and the Tax Increment Financing Commission of Kansas City, Missouri.

Two agencies received a qualified opinion on their financial statements.
(See Exhibit 5.)

Exhibit 5. Agencies with Qualified Opinions

Westside Housing Organization, Inc.

May 31, 2001

- The auditor was unable to satisfactorily determine the total accrued interest and principal liability for notes payable to another party (Housing and Economic Development Financial Corporation).

Planned Industrial Expansion Authority of Kansas City, Missouri

April 30, 2002

- Contract compliance of Kemper Garage project expenditures was not determined because it was outside the audit engagement. Funding for the Kemper Garage project was commingled with funding for the Wyoming Street project. The Wyoming Street project was included in the audit engagement.

Sources: Annual agency audits.

The Westside Housing Organization, Inc. finding has been corrected and an unqualified opinion was issued on their audited financial statements for the year ending May 31, 2002.

According to the Planned Industrial Expansion Authority of Kansas City, Missouri management, the agency received a certificate of completion for the Kemper Garage Project in June 2002, and this project will be included in the agency's April 30, 2003 audit.

Disclaimer of Opinion

Auditors typically issue a disclaimer of opinion when a material uncertainty exists and the auditor believes that it is so pervasive as to not be adequately communicable by the use of an explanatory emphasis paragraph or there is a significant restriction on the audit scope. By issuing a disclaimer of opinion, the auditor declines to express an opinion. One agency received a disclaimer of opinion on the combined statement of activities, functional expenses, and cash flows. (See Exhibit 6.)

Exhibit 6. Agency with a Disclaimer of Opinion

SAVE, Inc. and Affiliates

June 30, 2001

- An unqualified opinion was expressed on the combined statement of financial position but the auditor disclaims an opinion on the combined statement of activities, functional expenses, and cash flows. SAVE, Inc. did not maintain its accounting records on a current basis during the year and the organization's internal control was not adequate to assure the proper recording of transactions, thus requiring reconstruction of certain records and resulting in substantial adjustments to the accounts. Adequate evidential matter in support of recorded transactions was not available in all cases.
-

Source: Annual agency audit.

SAVE, Inc. hired a full-time accountant in 2001 and began performing accounting duties internally. SAVE, Inc. received an unqualified opinion on their financial statements for the year ending June 30, 2002.

Material Weaknesses

A material weakness is a significant deficiency in which the design or operation of specific internal controls does not ensure that errors or irregularities material to the financial statements will be detected promptly by employees in the normal course of their work. A material weakness is also a reportable condition; however, reportable conditions are not always material weaknesses. Auditors for four of the agencies reported internal control findings significant enough to be considered material weaknesses. (See Exhibit 7.)

Exhibit 7. Agencies with Material Weaknesses

Health
<p>SAVE, Inc. and Affiliates June 30, 2001</p> <ul style="list-style-type: none"> The accounting records were not maintained on a current basis, and internal control was not adequate to assure the proper recording of transactions. Reconstruction of certain records was required resulting in significant adjustments to the accounts. As a result, the auditor did not express an opinion on the combined statement of activities, functional expenses, and cash flows. SAVE Development, Inc., SAVE Housing, Inc., and SAVE Residential, Inc. have uncollected balances of rent from HUD of \$11,914, \$3,539, and \$8,121, respectively. <p>Truman Medical Center, Inc. April 30, 2001</p> <ul style="list-style-type: none"> Certain individuals have assigned duties, access or the ability to process, record and monitor transactions in the accounting cycles, which are considered to be conflicting duties in an effective control structure.
Housing and Community Development
<p>Greater Kansas City Housing Information Center December 31, 2001</p> <ul style="list-style-type: none"> After a change in payroll services, Kansas City, Missouri, earnings tax was not withheld from employee pay and remitted to the city for the period January through July 2001. Grants receivable were recorded when funds were received rather than when billing or reimbursement requests were submitted to funding sources. Grants receivables accrued during the 2000 audit were accrued again when the funds were received in 2001, resulting in an overstatement of both receivables and grant revenue in the interim financial statements.
Neighborhood and Community Services
<p>Guadalupe Center, Inc. December 31, 2001</p> <ul style="list-style-type: none"> Accounting records were not maintained on a current basis. The internal control was not adequate to assure the proper recording of transactions during the year thus requiring reconstruction of certain records and significant adjustments to accounts. Bank reconciliations were not performed timely and accurately. Additionally, records were not maintained in an organized manner to facilitate the audit.
Source: Annual agency audits.

Agencies addressed material weaknesses through personnel and software additions. Save, Inc. and Affiliates, the Greater Kansas City Housing Information Center, and Guadalupe Center, Inc. each reported addressing their material weaknesses by hiring trained accounting staff. Previously, the accounting functions for these agencies were outsourced or performed by personnel not having an accounting background. In addition, SAVE, Inc. reported submitting payment requests electronically and Guadalupe Center, Inc. reported purchasing accounting software.

The Greater Kansas City Housing Information Center reported confirming and adjusting receivable balances and instructing their payroll company to begin withholding earnings taxes to address their findings.

Monitoring department follow-up varies. The Housing and Community Development Department reported hiring a local CPA firm to conduct limited scope audits of certain agencies, requested written explanations of corrective actions that the agencies plan on taking, and conducted on-site reviews using department staff.

The Health Department conducts on-site agency reviews that include examining corrective actions for material weakness that are within the scope of the department's contract with the agency. The Neighborhood and Community Services Department requested written explanations of corrective actions taken to address the finding for the Guadalupe Center.

Reportable Conditions

Reportable conditions are deficiencies in the design or operation of an entity's internal control structure and could adversely affect the entity's ability to record and report financial data. However, reportable conditions are of a less serious nature than material weaknesses. Eight agencies had at least one reportable condition that their auditors did not also classify as material weaknesses. (See Exhibit 8.)

Exhibit 8. Agencies with Reportable Conditions

Black Economic Union of Greater Kansas City

December 31, 2001

- The agency's fixed asset schedule/register has not been reconciled with the general ledger balances.

Good Samaritan Project, Inc.

December 31, 2002

- Due to the size of the accounting department, there is little segregation of accounting functions.

KCMC Child Development Corporation

June 30, 2002

- Testing of 25 Head Start Program participant files produced one file without documentation of the participant's age, one file without proof of income, and one file without properly completed enrollment forms.
- Testing of reimbursements to providers for the Child and Adult Care Food Program showed one out of 17 reimbursements was not calculated correctly.

KCMC Child Development Corporation

June 30, 2001

- Members of management and certain staff used a credit card for business related expenditures, including grant expenditures. Certain credit card expenses did not have proper supporting documentation substantiating expenditures.

Metropolitan Lutheran Ministry

January 31, 2002

- The schedule for pledge receivables had not been reviewed by management for proper valuation. As a result, the unconditional promises to give balance was reduced from \$108,000 to \$18,950.

Samuel U. Rodgers Community Health Center, Inc

September 30, 2001

- Certain individuals have assigned duties; access; or the ability to process, record, and monitor transactions in the accounting cycles, which are considered to be conflicting duties in an effective internal control structure.
-

SAVE, Inc. and Affiliates

June 30, 2002

- Two of 40 disbursements tested had only one signature rather than the two signatures required for checks written for \$1,500 or more.

United Inner City Services, Inc.

December 31, 2001

- Controls were not in place ensuring all cash disbursements had supporting invoices and management approval before checks were signed and mailed.

Sources: Annual agency audits.

Noncompliance

Auditors for five agencies¹² reported findings of noncompliance with laws, regulations, and contract or grant agreement provisions. We reviewed compliance reports from 36 agencies. Agencies receiving at least \$300,000 in federal funding and falling under OMB A-133 reporting requirements are required to report noncompliance. (See Exhibit 9.)

Exhibit 9. Agencies with Noncompliance Findings

Full Employment Council, Inc.

June 30, 2001

- For two months, a cash balance in excess of the averages permitted by the Missouri Division of Workforce Development was maintained.

Guadalupe Center, Inc.

December 31, 2001

- The quarterly Financial Status Reports were completed on a cash basis. This report is required to be completed using accrual basis accounting.
 - Two of the four Financial Status Reports for 2001 were not submitted within 30 days of the end of the quarter.
-

¹² Seven audit reports contained noncompliance findings. Save, Inc and Affiliates and KCMC Child Development Corporation submitted audit reports for two years.

KCMC Child Development Corporation

June 30, 2002

- Testing of 25 Head Start Program participant files produced one file without documentation of the participant's age, one file without proof of income, and one file without properly completed enrollment forms.
- Testing of reimbursements to providers for the Child and Adult Care Food Program showed one out of 17 reimbursements was not calculated correctly.

KCMC Child Development Corporation

June 30, 2001

- During testing of participant files for the Head Start Program, there was no documentation in the participant file regarding age verification for 3 out of the 25 participants tested.
- During testing of participant files of the Child and Adult Care Food Program, enrollment cards were not on file for 3 out of 25 participants tested.

Samuel U. Rodgers Community Health Centers, Inc.

September 30, 2001

- Six out of 30 patient files with billings totaling \$113 did not support the units billed to the program.

Save, Inc. and Affiliates

June 30, 2001

- Unauthorized withdrawals of \$12,000 and \$10,000 were made from Replacement Reserve accounts of SAVE Development, Inc. and SAVE Housing, Inc., respectfully. Neither organization was in compliance with reserve requirements.
 - A shortage in the deposits to the Replacement Reserve accounts for SAVE Housing, Inc. and SAVE Residential, Inc. of \$1,321 and \$2,256 respectfully. Neither organization was in compliance with reserve requirements.
 - The Replacement Reserve accounts for SAVE Housing, Inc. and SAVE Residential, Inc. are not interest bearing as required.
 - The owner certified financial statements for SAVE Development, Inc., SAVE Housing, Inc., and SAVE Residential, Inc. were not electronically submitted to HUD by the required deadline.
 - SAVE Development, Inc., SAVE Housing, Inc., and SAVE Residential, Inc., did not use the HUD chart of accounts as required.
-

SAVE, Inc. and Affiliates

June 30, 2002

- A shortage in the Replacement Reserve account for SAVE Housing, Inc. of \$1,239. The entity was not in compliance with reserve requirements.

Sources: Annual agency audits.

Agencies take a variety of actions to attempt to rectify compliance findings. To address noncompliance findings, the agencies' managerial staff informed us of the following actions: hiring additional staff, replacing funds, moving funds to different accounts, completing reports on a timelier basis, and computerizing operations.

Full Employment Council, Inc. management told us the agency more closely monitored its cash balances. This finding was not repeated in Full Employment Council's June 30, 2002 financial audit.

Guadalupe Center, Inc.'s accountant told us the agency is completing their Financial Status Reports on an accrual basis. The agency is also trying to complete these reports on a timelier basis.

KCMC Child Development Corporation's accountant told us the agency began storing its information in a computer database to address their June 30, 2001 findings. Reimbursements are made only if the child is in the database. The agency is also providing its employees additional training. The corporation is addressing its June 30, 2002, findings by conducting random audits on their files and verifying that checks are calculated correctly.

Samuel U. Rodgers Community Health Center, Inc.'s chief financial officer told us he was in the process of hiring staff who would be responsible for ensuring proper documentation exists in all files for units of service billed. The agency also reports moving toward a computerized billing system which will have data entry requirements that will maintain more complete information.

Management of SAVE, Inc. and Affiliates told us that to address their 2001 findings, they replaced money in reserve accounts, changed their reserve accounts to interest bearing accounts, and submitted their financial statements electronically to HUD by the specified deadline. In SAVE, Inc. and Affiliates' June 30, 2002 audited financial statements only the compliance finding pertaining to the shortage in the reserve account remained. According to SAVE, Inc. these funds were replaced in August 2002.

Most noncompliance findings outside city's contract scope.

Monitoring departments generally did not follow up with agencies on corrective actions for noncompliance findings because the noncompliance was outside the scope of the city's contract.